

Ms Carmel Donnelly PSM
Chair, Independent Pricing and Regulatory Tribunal NSW (IPART)
PO Box K35,
Haymarket Post Shop,
HAYMARKET NSW 1240

[REDACTED]

Dear Ms Donnelly,

Re: DCJ response to IPART Draft Report – Review of out-of-home care costs and pricing

I would like to thank IPART for delivering the Draft Report into out-of-home care (OOHC) costs and pricing ('Draft Report').

The NSW Government is determined to provide an efficient and sustainable OOHC system that provides quality care and positive outcomes for children and young people. The Draft Report provides significant insights that will be considered as part of system redesign. DCJ is collating the best available evidence on what needs to be done to better support children, families, carers and service providers.

DCJ notes that, based on the information provided, IPART has taken an approach that is considered 'best practice' in developing unit costs for human services. IPART has clearly obtained significant evidence to develop its rationales for the findings and recommendations provided in the report. However, DCJ suggests there are some areas where further investigation and refinement are recommended – these are outlined below:

1. Overall budget impact

The Draft Report asserts that the recommendations provided "should not result in significant changes to the level of funding required overall..." (pg.5). DCJ notes this statement has not been evidenced within the Draft Report, and evidence (analysis) is required to support this claim. DCJ further notes that its own internal analysis shows the new prices proposed by IPART would result in a significant increase in OOHC expenditure.

DCJ acknowledges the lack of available short-term and long-term performance data impacting IPART's ability to calculate efficient costs in line with preferred methodology.

DCJ notes IPART has not considered the implementation impacts of the recommendations in the Draft Report. Several recommendations would pose significant budgetary and policy impacts if implemented. The overall complexity to implement and implementation costs and effort should be considered in determining total benefits to the system. For example, DCJ payment of care allowances directly to NGO carers would require significant policy changes to redefine roles and responsibilities, requiring system upgrades and additional staff/resourcing to implement.

Several recommendations related to payments appear to increase the complexity of NGO approval and payment processes. It should be noted that a robust verification/reconciliation process would be needed to ensure providers are not over/under funded due to children's movements, including between care types.

It is recommended that IPART work with DCJ to understand the high-level long-term costs of the recommendations to substantiate the view that there should be no significant changes to the level of funding required, or, alternatively, IPART should consider removing this statement and any related references if it cannot be substantiated.

2. Proposed increases to care allowance rates

The NSW Government commissioned IPART to undertake this review because we heard from carers that the allowance was not adequately covering the needs of children in OOHC. DCJ welcomes IPART's recommendations regarding allowances as they verify what we already knew — that carers need more support.

Carers are the backbone of the OOHC system, and we have seen the negative outcomes for children that result when there are not enough carers to meet the diverse needs of children. DCJ is committed to improved recruitment and retention of carers, with carer recognition and support identified as a central reform direction, as outlined in our [reform plan](#) published in February 2025.

DCJ understands that the rising cost of living poses significant challenges for many families, including our dedicated carers. We expect increased care allowances may provide better stability and wellbeing for children in care, ensuring they receive the support they need to thrive. DCJ also notes increased care allowances would have a significant impact on the OOHC budget. Considering the proportional expense that allowances comprise to the NSW Government's investment in OOHC, carer allowances warrant further investigation than that included in the Draft Report.

For consideration in IPART's further analysis DCJ makes the following observations:

- DCJ notes the proposed allowance rates are tied to the *Cost of Caring* Study from 2002 and then indexed by 'average' household expenditure using the Melbourne Institute of Applied Economic and Social Research's *Household, Income and Labour Dynamics in Australia (HILDA) Survey* to 2022. Given the age of the *Cost of Caring* Study and that HILDA does not specifically represent carer households, it is not known whether these assumptions are suitable. For example, the Melbourne Institute analysis was based on couples only, family types for households which are not typical of OOHC carers. Additionally, a key difference in the cohorts might be in relation to the level of employment. DCJ's *Pathways of Care Longitudinal Study* research found that around 60% of carer households do not have a carer in paid employment¹.
- Separately, for macroeconomic reasons, given the timing of the datapoints that feed into IPART's assumptions, we consider it possible that cyclical factors may overstate allowances under this method.

DCJ recommends the Final Report identify the limitations of the current assumptions underpinning allowance rates and the ideal method of quantifying these.

3. Administrative and overhead costs

¹ Ryder, T., Zurynski, Y., Mitchell, R. (2022) "[Exploring the impact of child and placement characteristics, carer resources, perceptions and life stressors on caregiving and well-being](#)", *Child Abuse & Neglect*, 127.

The NSW Government is committed to ensuring every available dollar goes into direct supports to children, families and carers. This can only occur when administrative costs are kept to a minimum wherever possible.

The assumptions underpinning DCJ-delivered OOHC costs do not reflect DCJ practice. They overstate actual costs to the budget and do not consider DCJ's fixed cost structure, particularly as volumes change. Even under IPART's methodology, the fixed nature of many DCJ costs would mean that the average and 'efficient' cost of DCJ-delivered care would fall if DCJ-managed OOHC populations increased.

DCJ acknowledges the significant challenges of 'following the dollar' of costs given the number of NGOs, range of financial reporting systems and processes, and complicated funding arrangements. DCJ notes that the data quality challenges and variability that underpin administrative cost assumptions have been acknowledged in the Draft Report.

The large range of administrative costs found by IPART, resulting in a relatively high percentage benchmark of administrative costs, requires further consideration and exploration. The current Permanency Support Program (PSP) model is administratively burdensome which is reflected in current administrative costs. IPART has proposed a significantly simpler cost structure that shifts a larger share of the administrative overhead onto DCJ (e.g. through paying allowances). A risk is that applying the recommendations to the current system could overstate administrative costs and structurally inflate prices. DCJ notes that any centralisation of payments, or simplification of costs, would likely significantly reduce overheads and administrative costs for NGOs under a future OOHC cost and pricing structure.

There is an opportunity to achieve some efficiencies for home-based care by having the administrative cost allocation better reflect the proposed pricing model. This should be an area of refinement in the Final Report.

DCJ recommends IPART further consider or comment on efficient future administrative costs, in line with the above commentary, if IPART's recommendations were to be implemented.

4. Payment to cover the cost of recruiting and assessing foster carers

Foster carers provide essential support and stability for children who are unable to be cared for by family or kin. Recruiting and maintaining a strong network of foster carers ensures every child has access to a loving home, helping to build a brighter future for our communities. A detailed OOHC Strategy is currently in development which will outline the long-term plan to recruiting and retaining essential carers.

The proposed payment of \$21,100 per child when a child enters NGO care needs further clarification in the Final Report. There are several circumstances where this payment would not be reasonable on a 'per child' basis such as emergency and short-term placements, respite placements, and sibling placements within the same carer household. An alternative method could be to consider a payment on a 'per carer household' basis for any newly authorised carers which could be considered with other Key Performance Indicators.

DCJ recommends IPART further consider this payment recommendation, considering the above commentary.

5. Development of ACCOs and cultural support for Aboriginal children

DCJ notes IPART has proposed increases to loadings for Aboriginal children to support a range of cultural activities. These payments all propose additional financial support for Aboriginal Community Controlled Organisations (ACCOs) to drive improved outcomes for Aboriginal children.

Genealogy and cultural planning services are critical to the healing, cultural identity and support provided to Aboriginal Children. DCJ notes that consideration is needed for the availability of these services as funding alone may not be sufficient to manage the volume of referrals and supports required.

DCJ acknowledges the recommendation to introduce a \$21,300 up-front payment for the transition of Aboriginal children to ACCOs. DCJ notes this recommendation responds to feedback from ACCOs and may incentivise acceptance of case management transfers. Consideration could be given to pro-rata payments for transfers that are not able to progress, but where significant work has occurred. It is also noted that not every case will require three months of caseworker training and further exploration of this assumption is required for the Final Report.

The NSW Government notes some funding components to meet the costs of ACCO establishment, growth and community advocacy may not specifically be the responsibility of the OOH program and consideration may need to be given to appropriate resourcing.

DCJ recommends IPART further consider this payment recommendation, taking into account the above commentary.

6. Payment of physical and sexual abuse insurance incurred by NGOs

DCJ notes that the Special Liability Insurance Scheme (SLIS) commenced on 1 January 2025 to address the lack of available commercial insurance coverage for physical and sexual abuse (PSA) claims. DCJ notes that not all providers have joined the SLIS; several service providers have obtained PSA cover in the commercial market.

Reimbursing insurance premiums may disincentivise providers from adopting best practice regarding risk management and create a 'moral hazard'. It may also discourage brokers and insurers from seeking/quoting best price for PSA cover. It is also noted that insurance premiums are driven by agencies' structures, systems, practices etc that would not be appropriate for government to wholly be responsible.

DCJ recommends that IPART reconsider this recommendation and notes that the cost of PSA insurance should be considered, along with all other insurance, as part of administrative unit costs in line with current practice.

7. Pricing of residential care placements

DCJ notes the limited sample size of data provided by NGOs, and the lack of available data across residential care providers to adequately develop benchmark and efficient costs and the impact this may have on the resulting decisions.

DCJ notes the Draft Report proposes to incentivise providers to maximise occupancy in houses. This aligns to the current funding approach to residential care. There is little evidence to support the efficacy of an incentive-based model over the course of the current or former contract period for PSP. The recommended pricing framework should be clearly specified in the Final report – per house and per child to allow DCJ to consider its view on this recommendation and the likely benefits in practice.

DCJ will need to consider the relative benefits against the costs (including administrative costs) of introducing age related packages across residential care placements.

DCJ notes children and young people in Intensive Therapeutic Care (ITC) have high and complex needs and that the role of the Therapeutic Specialist is not generally intended to work directly with children, rather, to implement the therapeutic model of care across the program and care team. Suggest IPART consider whether the benchmark costs for medical and therapeutics for ITC need adjustment, noting they are lower than the

equivalent in the proposed foster care benchmark pricing. DCJ also notes that the role of a Therapeutic Specialist may not be employed under the SCHADS award.

DCJ notes that the 'Placement Establishment Payment' is not intended to fund upgrades to the home to make them 'robust' and suggests the narrative describing this payment in the final report be updated to reflect this. Property damage costs also appear to be underfunded in the draft costs based on provider feedback.

DCJ notes that efficient and benchmark costs have not been included for Therapeutic Home-Based Care (THBC) or Therapeutic Sibling Option Placement (TSOP) which are carer-based models delivered under ITC and should be included in the final report.

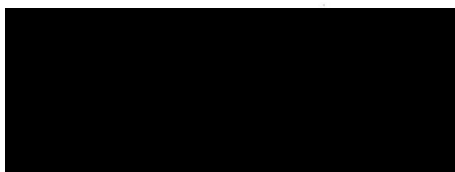
DCJ notes IPART is sourcing further information on residential care cost components, such as administrative and property costs, to feed into updated costs and pricing for the Final Report. DCJ requests IPART consider including efficient benchmark costs for THBC and TSOP in line with the above commentary, noting the growing importance of more intensive carer-led placement options.

DCJ has also provided responses to the additional questions posed in the Draft Report as an attachment to this document (**Attachment A**).

I thank IPART for the dedication and significant work that has gone into this review thus far and look forward to receiving the Final Report. The Final Report's findings, decisions and recommendations will be a key component to support the development of a detailed OOHC Strategy by the end of 2025. This work will also contribute to DCJ's analysis and modelling in the development of future pricing structures for OOHC.

If you would like to discuss this letter, or if you would like more information, please contact Stuart Malcher, Executive Director Child and Family on [REDACTED] or at [REDACTED].

Yours sincerely,



Michael Tidball
Secretary

Attachment A – Response to IPART additional questions

1. Do you consider that the median annual rent included in benchmark costs for residential care, emergency care and independent living should vary by location?

- DCJ deems that the median rental is an appropriate benchmark. The cost variances are immaterial and the administrative burden would likely outweigh any potential benefits.
- IPART's assertion that "the difference in annual rent between regions is a relatively small component of the total cost of providing out-of-home care in a residential model and applying a different rate by region may add administrative complexity." (p.61) is supported.

2. What expenses should be considered as administrative costs in the delivery of residential care services? What factors impact on these costs?

DCJ recommends administrative costs align with the same definitions and categories as foster care. DCJ supports the list of administration costs outlined on page 111 noting the following points below:

- Motor Vehicles
 - DCJ agrees with IPART's delineation between motor vehicle costs for casework and house operations being included in service delivery.
 - Motor vehicle costs for corporate/head office staff included in administration costs.
 - It is noted that the costs only consider cents per kilometre. Further clarification should be provided as to whether the purchase or lease costs for the vehicle is included.
- Rental and property costs
 - Rent and property costs for a property accommodating a child would be a direct cost.
 - Considerations need to be given regarding whether repairs and maintenance costs for properties accommodating a child are direct or indirect costs.
- Ensure administration costs reflect costs associated with quality assurance to meet the NSW Child Safe Standards for Permanent Care (such as reportable conduct teams to investigate reportable allegations made against authorised carers or care staff).

3. How can the assumptions about level, leave and training backfill and other staffing oncosts be refined to better estimate the efficient cost of staffing residential placements?

- The SCHADS level proposed for care staff requires a 4-year degree (page 127). This does not align with PSP service requirements for direct care staff in Intensive Therapeutic Care (ITC) which indicate the minimum qualifications is a Diploma.
- DCJ does not have data on average tenure. There is a query about whether the average tenure estimates identified in the report (3 years) is sufficient to account for long service leave when it is required particularly noting the proposed portable leave scheme.

- There are differences in IPART and DCJ estimates for the working hours available for caseworkers, particularly for direct and casual care staff. Further information on the data/analysis and assumptions that underpin these figures is needed to assess their appropriateness and/or suggest refinements.

	<i>Caseworkers, house managers, therapeutic care specialists</i>	<i>Direct care staff</i>	<i>Casual direct care staff</i>	<i>Caseworkers</i>
	NGO Non- shift worker	NGO Shift worker	NGO Shift worker - casual	DCJ worker
IPART model, "Inputs" tab, row 134	1384	1507	1638	1065
DCJ, IRM model, "In.Labour", row 63 for care staff, and Unit costs manual p.14 for DCJ caseworker	N/A	1558	1930	1247

- DCJ notes that on-cost rates by IPART have been calculated differently to DCJ. For example:
 - IPART have not included payroll tax in staff on-costs.
 - IPART have included training costs in the oncosts. DCJ considers training a separate cost.

4. In practice, how would our proposed funding structure for meeting the cultural needs of Aboriginal children in out-of-home care impact your ability to support these children?

- The proposed funding structure appears to support improvements in meeting the cultural needs of Aboriginal children in out-of-home care. To ensure accountability and maximise its effectiveness, it is essential to implement robust mechanisms that uphold transparency and guarantee the allocated funding is directed toward achieving meaningful and intended outcomes.
- Clarification on the mechanisms involved in carers receiving reimbursement for actual expenses incurred is needed. There can be an inherent assumption that carers are financially well positioned to fund costs upfront and wait for DCJ reimbursement.
- Any consultation undertaken with Aboriginal knowledge holders should be remunerated at professional rates reflective of their subject matter expertise.